AuditReport
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TRUST SHARES FOR YOUR ATTENTION

OUR SUBSCRIBERS ASK

TWO MODEL PORTFOLIOS INTRODUCED

STATISTICAL SECTION

INTEREST RATES HEAT UP AND TRUST ISSUES TURN WEAKER

In case you haven't noticed, the bond market has been heating up of late. The Federal Reserve Board is having to boost short-term interest rates because of international monetary pressures and as a result already there is upward pressure on the prime rate. All this is being felt quickly in the stock market, particularly in interest-rate sensitive mortgage trust issues. In the last eight trading sessions the 13 NYSE-listed trusts have declined about 5% in value, while the overall list has been fairly strong. Our tabulations of share volume (p.3 of the statistical supplement) show that about 78% of shares in the April 16 week were traded on the downside--a higher percentage than at any time since last August. Accordingly we are stressing the equity trusts this issue and our new model portfolio for mortgage trusts (p.8) suggests a goodly cash position near term.

We are proud to publish for the first time our computerization of COMPARATIVE TRUST STATISTICS. We urge investors to read it closely and an enclosed letter contains some suggestions for expansion of this service. The computerization is our first joint effort with Programmed Control Corp. of Princeton, N.J. This service would not have been possible without the efforts of Dr. John E. Meggit, PCC founder and president who also serves as AUDIT's board chairman.

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NEW AGGRESSIVENESS ELEVATES INVESTMENT APPEAL OF EQUITY TRUSTS

Equity trust managers are finding their best defense is a strong offense. New managers are being brought into the equity trusts, and they are coming up with a much broader concept of actions they can take under the Internal Revenue Service rules governing trusts. And equity trusts have advanced more sedately in this bull market than their mortgage cousins. As a result the equity trust list contains more situations with long-term potential than at any time in recent memory.

Some perspective is in order. The 1960 act of Congress that created the real estate trusts was largely lobbied through by trustees of some large trusts, most located in Massachusetts, in order to secure pass-through tax treatment of their income from operations in other states. Nine of the 11 major trusts formed in the years 1961 and 1962 were equity trusts and for several years they represented the realty trust industry.

Those early managers played the realty trust game largely as the rules existed in the first half of the 1960s: conservative mortgage debt, a heavy concentration in net leases with no equity kickers. Almost all properties were purchased after they had established an operating record and their cash flow could be estimated. By and large the trusts were operated as passive investors as trustees understood the law and IRS regulations.

When the second-generation mortgage trusts began appearing in the middle of 1968, the equity trusts abruptly found themselves ushered unceremoniously from center stage as far as investors were concerned. Suddenly the mortgage trusts were the rage--and they have continued so for nearly three years. At present 12 of the 42 realty trusts listed on either the NYSE or ASE are equity trusts, or about 28½% of a total 42 listed issues. Yet the equity trusts normally account for about 9%-10% of total share volume, indicating investors are still concentrating funds in the mortgage trusts.

The key to the new-found aggressiveness by the equity trusts is the IRS rule which gives trustees power to "make capital expenditures with respect to trust property" and to "enter into and renew leases." There's no mystery about these sections of the rules, for they have been in force since 1962. Only their interpretation has varied. And since the IRS rules also say that trusts must not conduct a business under guise of operating a trust, the power to improve property is not an open door to development of all real estate.

So far real estate development appears to be winning IRS blessing if the property is held for long-term investment. At any rate that is how the aggressive trusts are interpreting the rule. They are now buying more and more unimproved land and developing it, either directly through contractors or through joint venturers.

The aim: to put their trust in a "wholesale" position. Real estate operatives have long recognized that creation of values from raw land is the most rewarding phase of real estate. It is also the riskiest part, because no one really knows how a new building is going to be greeted by tenants. But the object is to capture the developer's profit or, alternatively, reduce the trust's investment in income property it holds.

If they succeed, they could significantly increase the leverage in the equity trusts. The table above makes abundantly clear that these 18 major equity trusts, taken as a group, are not very highly leveraged in the accepted norms of the real estate industry. Stated another way, the 0.8-1 debt/equity ratio means these trusts have about a 55% equity interest in their properties (the tabulation excludes construction

STATISTICAL PROFILE OF 18 EQUITY TRUSTS

Trust	Bal. Sheet Date	Assets (Mil.$)	Mtg. Debt (Mil.$)	Equity (Mil.$)	Debt/ Equity	Div/Sh. Last Yr.	Tax status-% Ord. Inc.	Ret. Cap.	Cap. Gains
Am. Rlty-ASE	Sep.70	$29.5	$16.1	$11.3b	1.4-1	0.63	81.0	19.0	--
Denver REIA	Dec.70	22.1	10.6	10.7	1.0-1	0.75	80.0	--	20.0
First Un-ASE	Oct.70	70.0	34.8	32.8	1.1-1	0.85	58.8	41.2	--
Frank.-ASE	June70	34.6	23.9	10.1	2.4-1	0.67	66.0	33.0	--
Genl. Grow.	Sep.70	61.0	39.7	17.5	2.3-1	0.80a	--	--	--
Goodrich	Dec.70	17.5	4.6	11.5	0.4-1	0.90a	--	--	--
GREIT Realty	Oct.70	34.7	22.6	7.4	3.1-1	1.57½	83.0	7.0	--
Hubbard-NYSE	Oct.70	93.4	--	93.0	0-1	1.42	100.0	--	--
Nat.Rlty-ASE	Dec.70	40.7	21.3	16.9	1.3-1	0.88	43.6	56.4	--
Penn-ASE	Aug.70	60.0	40.5	17.6b	2.3-1	0.80	92.5	7.5	--
REIT Am.-ASE	Nov.70	44.1	9.4	33.8	0.3-1	1.51	100.0	--	--
Rlty In.-ASE	Jan.71	30.6	6.8	17.1	0.4-1	1.00	100.0	--	--
Riviere RE	Dec.70	15.7	8.0	7.2	1.1-1	0.88	76.5	--	23.5
Saul (B.F.)	Sept70	63.3	14.5	37.2	0.4-1	1.14	100.0	--	--
U.S. Lsg-ASE	New	30.5	--	30.5	0-1	1.04a	--	--	--
U.S.Rlty-ASE	Dec.70	103.1	45.2	41.0b	1.1-1	1.50	63.3	33.3	3.3
Wash. RE	Dec.70	28.8	20.3	7.0	2.9-1	0.82	65.9	--	34.1
Wisconsin RE	Dec.70	28.2	19.4	6.7	2.9-1	0.83	43.4	49.4	7.2
TOTALS		$807.8	$337.7	$409.3	0.83-1				

a-Current rate annualized for new trusts; tax status of dividends not determined until first fiscal year ends. b-Includes convertible debt as capital funds. Shares are traded over-the-counter unless otherwise noted.

loans, and includes convertibles as part of a trust's capital funds). *Hubbard Real Estate Investments* is 100% equity, and even excluding this trust, the group has a debt/equity ratio of 1.07-1. *GREIT Realty Trust* (formerly Greenfield) has the highest debt/equity ratio of 3.05-1, followed by *Washington Real Estate and Wisconsin Real Estate Investment Trusts* with 2.9-1 each. *Franklin Realty* has 2.4-1 and *General Growth Properties and Pennsylvania REIT* 2.3-1.

In our view, leverage probably will be easier to attain for the equity trusts than for mortgage entities. This should be so because each income property has its natural leverage, and even the equity kickers a trust might he called upon to surrender are small compared to the pieces of equity the mortgage trusts have been giving up of late in the form of convertibles or warrants. Here are some typical activities the trusts are now undertaking:

U.S. Realty Investments is joint venturing with Cleveland's Forest City Enterprises to build a 1,400 apartment complex near Denver and a major shopping center near Niagara Falls, N.Y.

Denver Real Estate Investment Association is constructing a 400-room Stouffer's Denver Inn near Denver's Stapleton International Airport for $6.7 million and a 100,000-sq. ft. office building costing $3 million on land adjoining a shopping center owned by the trust.

Pennsylvania Real Estate Investment Trust is active in several joint ventures, including half interests in 232 apartments completed last year and a $4.2 million shopping mall in Tupelo, Miss. begun last year. And construction has just begun on 196 apartments on 50 acres owned by the trust near Harrisburg, Pa.

American Realty Trust has built one motor hotel and holds another large land tract for development.

Development trusts have generally chosen to develop only with a portion of their assets. All have balanced portfolios of seasoned properties which provide stability of income and cash flow while new properties are added. While risks are high, potential rewards are also high. A trust may earn 20%-plus on direct development, vs. a 10%-12% range for most mortgage investments currently. At this market juncture we believe there are some unusually promising values available in the equity realty trust field. As the table on page 3 indicates, some equity trusts provide a modest tax shelter through payment of dividends from depreciation, but this is not a major factor in most trust distributions. Two trusts are reviewed below; others will be contained in later issues.

General Growth Properties is a prototype of the more aggressive newer trusts. General Growth came into being last September when it acquired all the properties of General Management Corp. and simultaneously offered 650,000 shares of beneficial interest at $13.75. General Management was a well respected Des Moines, Iowa developer that owned seven shopping centers, two office buildings, two apartment projects and 12 vacant sites.

These vacant sites are being aggressively developed, and the trust now has $40 million of construction underway in its behalf, most in Des Moines. A major center with a Sears, Roebuck store as the anchor tenant will get underway in Fayetteville, Ark. in August. In January the trust agreed to buy 1,600 apartments from Houston, Tex. developer John Jamail for about $3 million in cash over about $14 million in mortgages. The first two sections of this sale have been closed and the third section is set for a May closing. Most of the apartments are under development and completed units are meeting good renter response.

Some major labor union contracts have been settled and the outlook is that labor peace will both aid GGP's aggressive construction program and remove cost uncertainties. And population trends are favorable to growth of the Plains states cities served by GGP.

With another $20 million of construction still on the drawing boards, GGP essentially has enough in the mill to double its assets of $60.9 million by the end of its fiscal 1972, ending in September. If normal relationships hold, this could let the trust about double gross revenues on an annualized basis by the end of fiscal 1972.

GGP's record leads us to believe that GGP can come very close to this mark. Fiscal 1970 gross revenues were up 35% to $4.25 million and net income was up 40% to $618,000, reflecting benefits of previous expansion. Gross and net cash flow (before and after amortization of mortgages) showed similar gains. Net income for the first three months as a trust, ended December, neared $638,000--exceeding the total for the previous year. Both net income and net cash flow were $0.27 in the quarter (no comparisons are available), vs. $0.35 for the smaller number of shares outstanding in 1970.

Since its offering last September, GGP shares have advanced sharply and are now valued at 2.9 times book value of $7.69 per share. The indicated $0.80 dividend provides very modest income. Management's long-term development record is impressive and the shares even at current prices (about 23-OTC) are speculative buys.

STATISTICAL HIGHLIGHTS

GENERAL GROWTH PROPERTIES (OTC) Year ends September		U.S. LEASING REAL ESTATE INV. (ASE-USE) Year ends December
$39,677,492	Mortgages and notes	None
17,480,355	Shareholders' equity	$30,500,000 (Est.)
2,357,267	Shares outstanding	1,348,000
23 1/8 bid	Recent price	22¼
None	Warrants	1,348,000
		(Warrants exer. at $25 till 12/31/80; redeemable at trust's option at $5 after 12/31/74).

Share amounts	Earn.	Net cash
1970	$0.35	$1.00
E1971	1.00	1.30

U. S. Leasing Real Estate Investors, just listed on the ASE, presents an opportunity to share in the development and real estate expertise of the nation's oldest and largest leasing company. The sponsoring company, U.S. Leasing International, is best known as the lease financier of all Pitney-Bowes equipment in the U.S., but has a number of other domestic and foreign operations.

The new trust grew out of the company's Banklease program, under which the parent acts as the leasing department for 18 commercial banks in the nation. Through its contacts with banks, the company learned that banks have a waning interest in tying up their capital funds in ownership of major office buildings.

Thus U.S. Leasing Real Estate Investors is geared primarily to invest in the equity underlying headquarters buildings owned or occupied by banks. The trust intends concentrating in medium sized cities.

The trust's proposed ownership of bank headquarters buildings would give it equity in office buildings that quite frequently are among the most prestigious structures in their communities. Bank headquarters buildings typically draw legal and accounting firms and similar professional tenants. Generally the bank will be the prime tenant in the building, although in some instances the bank may take a partial ownership position. Two trust deals illustrate the variations:

In Wilmington, Del., the trust will pay $1.5 million for 50% of an existing 17-story bank-office building. About 35.4% of the building's 293,853 sq. ft. are leased for 35 years to Bank of Delaware, a $272 million-asset bank. Under the purchase agreement, the trust is to receive a minimum 11% cash return (or $165,000) on its investment. If this return is not attained in 18 months, the purchase price will be adjusted downward so the cash return equals 11%.

In Fort Lauderdale, Fla., the trust is buying 50% in a 28-story bank-office building being built on land leased from First National Bank of Fort Lauderdale. The 289,000 sq. ft. building will be 39.5% leased to the bank when it is completed in 1972. The trust's agreement here calls for the trust to receive first cash payments up to 12% on its $1 million investment for the first seven years of operation.

In addition to these two, the trust has agreed to buy an interest in the former world headquarters building for Bank of America in San Francisco. The trust will own the land and 50% of the building, with yields comparable to the two above deals anticipated. Overall management believes it has enough deals in process to invest about half of the $30 million net proceeds from its December 1970 offering. Management is holding to a 10½% cash-on-cash yield, which means that actual yield should be higher when equity buildup is considered.

With a book value estimated at $23.00 per share, the trust thus has potential earnings of about $2.20 per share. Pending investment in equities, funds have been invested in short-term construction loans. With the shares selling very near book value (determination of actual book value awaits an accounting valuation of warrants issued with the offering), they offer longer-range appreciation.

QUESTIONS OF UNIVERSAL INTEREST: THE ANSWER COLUMN

Several questions and comments from our readers are of general interest and we will therefore answer or clarify significant points. Telephone inquiries simply cannot be handled. Q.When *Great American Mortgage Investors* was added to your "Rapid Growth" section in the March 1 RTR, why did you only mention the trust's monthly dividend payout? A.To be sure other factors are involved. Behind a fine record is a far sighted leveraging policy and unique well-entrenched marketing capability. This trust began leveraging through bank loans at the start in 1969 and via the commercial paper market in early 1970. This policy has stood it extremely well in the recent period with falling short term money rates and enabled GAMI to be one of the short-term trusts to widen its spread. Of even greater underlying importance and what it portends for future success is a strong market position in 12 Southern states served. The area is one of above-average growth. Management believes better loans can be obtained by serving a limited, well known region. Relationships have been cemented with local banks who have been taken in as profit partners. Not only did GAMI share opportunities when money was tight but real estate know-how supplements the bankers' loan-making abilities. Ties with smaller, local banks should lead to repeat business. The trust has become a factor in many communities and is able to seek out institutions in those communities where it wants to do business. Moreover, loan origination has not been overlooked. Of the $93 million in loans out on April 15, about 82% were originated by the trust.

In these competitive times GAMI is having no problem finding loans. Even so, and within the framework of a short-term trust, it is seeking to extend itself in real estate oriented services. For example, it is looking for joint ventures and other deals in the South where it can provide its expertise for warrants instead of cash fees. Another distinguishing feature of the trust is the ownership of over 20% of the shares by trustees and other employees. Most of the shares were purchased at the original public offering and the rest subsequently at public prices. As one of the very few trusts with ownership by principals, incentive leans toward earnings growth per share rather than high advisory fees that may necessitate dilution.

There are several other highlights rounding out the picture. The trust is seriously interested in 24-30 communities but thus far has gotten to only twelve. Commitments on January 31, 1971, broke down by type: 72% in apartments and housing, 8% in land development, 8% in office buildings, 4% in motels and 8% in other. A most important benefit from past leveraging has been resultant high price of the stock. This in turn permitted recent equity type financing of converts and warrants over book value (see RTR,Nov. 25, 1970).

Representing one of the fastest growing trusts having among the best returns on equity, the shares are worth purchasing. The high assurance of continued superior performance justifies the premium multiple.

Q.What about *Guardian Mortgage Investor's* "down" final quarter? A.Normally we do not dwell on the final quarter because this period is often distorted by year-end adjustments. The recent Guardian report, however, required checking. The fourth (Feb.) quarter appeared below previous quarters but only because of a change in calculating per share profits. Through the first nine months, a weighted per share calculation was used. After an accounting bulletin in January, the trust switched its reporting

method to full share conversion. Previous reports of per share results were something less than full conversion although they had been called diluted. The auditors are recalculating per share results on a fully converted basis for all quarters and these should be revealed in the annual report. Most important, earnings were higher in each successive quarter: $702,000, $1,069,000, $1,183,000 and $1,373,000. This also is not the entire picture because conversions improved reported earnings later in the year by reducing interest charges against earnings. Nonetheless, the underlying trend was upward and should remain so. Fiscal 1972 should see fully diluted per share results exceed $3.25 on a properly diluted basis. The shares, though up from the level when recommended in the December 28 RTR, have further upside potential.

TWO MODEL PORTFOLIOS INTRODUCED FOR READERS

With this issue we are elevating our list of current trust suggestions to the status of two model portfolios. One stresses inflation protection as a long-term objective through equity and long-term mortgage trusts while the other is a more aggressive mortgage trust portfolio for short- and intermediate- term objectives. Issues listed are assumed to be held until sold. We have limited holdings in both model portfolios to 10 issues initially with $100,000 capital, a decision which results in omission of many stalwarts in the final hard choice. Do not construe omissions negatively.

We are including in our portfolio *Alison Mortgage Investors* for benefits of its recently instituted program of wrap-around mortgage lending. Most other trusts included have been reviewed in recent REALTY TRUST REVIEWs. Alison's wrap-around plan presents interesting potential because Alison is virtually alone among trusts in not being limited to a percentage of assets it can invest in wrap-arounds.

Nor do we believe the market realizes the potential, largely because wrap-arounds are an arcane area of real estate finance. Wrap-arounds are second mortgages which are larger than the existing first mortgage on a property. This existing first mortgage is not disturbed, with the wrap-around lender assuming responsibility for its repayment. Wrap-arounds are an alternate way of refinancing a seasoned income property whose cash flow--and hence value--has increased over time. They are used when low interest rates or high prepayment terms make it desirable to leave the existing first mortgage stand. For example, an existing property may have a $2 million mortgage at 6% made some time ago, while its present cash flow gives it a value of $4 million. Generally this means the property could support a $3 million mortgage (75% of value), and the owner may want to refinance with a wrap-around at 8% in this fashion:

	Ann. int.
$3 million wrap-around--78%	$240,000
Less: Interest on $2 mil., 6%	120,000
Net to wrap-around lender	$120,000

Note that in this instance the wrap-around lender has actually disbursed only the $1 million difference between the first mortgage and the wrap-around, and his effective rate of return is 12% on funds invested. And the borrower's 8% rate on the wrap-around is likely less than a permanent mortgage would cost.

Alison has 13.1% of its $33 million portfolio in wrap-arounds at the end of March, up from nothing in this category at the end of its fiscal year in October. Initial wrap-around commitments yielded the trust from 13.5% to 15.0%, with the loans maturing in two to five years. We believe the wrap-around plan has several advantages to the trust: funds do not have to be reinvested as frequently; the market is much less competitive; and the trust in effect gets leverage through use of existing low-rate mortgages. Alison shares (21¼-ASE) are moderately priced at 12.1 times annualized earnings.

PORTFOLIO I

LONG-TERM, INFLATION PROTECTION

Sh.	Issue-Ann. Div.	Entered Date	Entered Price	Mkt. Val.
800	Gen.Growth -0.80	4/21	23.13	$18,504
400	U.S.Lsg.R.E-1.08	"	22.13	8,852
700	Penn. REIT -0.85	"	12.50	8,750
750	Rlty.Inc.Tr-1.00	"	17.13	12,847
600	Saul(B.F.) -1.24	"	19.75	11,850
400	Wash.REIT -0.96	"	12.63	5,052
600	GREIT Rlty -1.60	"	18.25	10,950
200	BankAm.Rlty-1.40	"	28.75	5,750
700	Mob.Hm.Comm-0.47	"	9.75	6,825
300	Cabot,C&F-New	"	22.00	6,600
	Market value			$95,980
	Transaction costs			1,375
	Total outlay			$97,355
	Cash balance			$ 2,645

PORTFOLIO II

INTERMEDIATE TERM, AGGRESSIVE

Sh.	Issue-Ann. Div.	Entered Date	Entered Price	Mkt. Val.
700	Alison Mtg -2.08	4/21	21.00	$14,700
400	Assoc.Mtg -2.40	"	29.38	11,752
300	Cont.Ill.Rl -2.40	"	32.12	9,636
450	Larwin Mtg -1.92	"	24.15	10,913
300	Diver.Mtg -2.04	"	29.13	8,736
200	Guardian Mtg -3.04	"	33.50	6,700
300	Grt.Amer.Mtg -1.90	"	26.63	7,990
200	First Mtg.Inv-2.20	"	32.38	6,475
200	No.Amer. -2.12	"	28.00	5,600
100	Am.Century -2.12	"	26.00	2,600
	Market value			$85,102
	Transaction costs			1,015
	Total outlay			$86,117
	Cash balance			$13,883

MOST ACTIVE LISTED TRUST ISSUES

NYSE Trust	Sh.(00)	Close	Chng.	ASE Trust	Sh.(00)	Close	Chng.
Week of March 26							
Chase Man.Tr.	x941	47 7/8	+1 3/8	Republic Mtg.wts.	1,916	7 5/8	+2
MONY Mtg.	838	12 1/4	- 1/8	Atico Mtg.wts.	1,421	9	+2 3/8
Cont.Mtg.Inv.	x808	23 1/8	+2 1/8	Republic Mtg.	978	21 1/8	+2
CI Mtg.Group	752	22	- 1/4	Unionamerica Tr.wts.	784	8 3/4	----
Wachovia Rlty.	529	28	+ 3/8	Security Mtg.	644	21	+2 1/8
	Avg. closing price:		$26.65		Avg. closing price:		$13.50
Week of April 2							
MONY Mtg.Inv.	2,090	13 1/8	+ 7/8	Sutro Mtg.Inv.	x1,807	19 5/8	+ 1/2
CI Mtg.Group	1,630	23 3/4	+1 3/4	Republic Mtg.wts.	1,534	7 3/4	+ 1/8
Cont.Mtg.	926	23 1/2	+ 3/8	Fidelity Mtg.	1,087	22 1/8	+1 1/2
Cont.Ill.Rlty	799	34 1/4	+2 7/8	Assoc.Mtg.Inv.	985	29 3/4	+ 3/4
Diver.Mtg.Inv.	787	29 1/2	+1 5/8	Atico Mtg.wts.	909	10	+1
	Avg. closing price:		$24.83		Avg. closing price:		$17.85
Week of April 9							
MONY Mtg.Inv.	1,929	13 5/8	+ 1/2	Republic Mtg.Inv.wts	839	8 1/4	+ 1/2
Cont.Ill.Rlty	1,213	33 1/8	-1 1/8	Atico Mtg. wts.	681	11 1/2	+1 1/2
Chase Man.Tr.	790	47 3/4	-1 3/8	Unionamerica Tr.wts.	616	8 1/4	- 1/8
CI Mtg. Group	684	22 7/8	- 7/8	First Denver Mtg.wts.	573	6 5/8	----
First Mtg.Inv.	650	32 1/2	- 1/8	Fidelity Mtg.	437	22	- 1/8
	Avg. closing price:		$29.98		Avg. closing price:		$11.48
Week of April 16							
Cont.Ill.Rlty	1,113	32 7/8	- 1/4	Atico Mtg.wts.	989	9 5/8	-1 7/8
MONY Mtg.Inv.	1,046	13 1/8	- 1/2	First Denver Mtg.wts	832	5 7/8	- 3/4
Cont.Mtg.Inv.	866	23	-1	Unionamerica Tr.wts.	678	8 3/4	- 1/4
Chase Man.Tr.	744	47 3/4	----	Republic Mtg. wts.	540	7 3/4	- 1/2
Diver.Mtg.Inv.	725	29	-1 3/4	First Denver Mtg.	434	19	- 3/4
	Avg. closing price:		$29.15		Avg. closing price:		$10.50